



PETROLEUM STORAGE TANK INSURANCE FUND
(A Component Unit of the State of Missouri)

Financial Statements

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)



1000 Walnut, Suite 1600
P.O. Box 13127
Kansas City, MO 64106

Independent Auditors' Report

Members of the
Petroleum Storage Tank Insurance Fund:

We have audited the accompanying basic financial statements of the Petroleum Storage Tank Insurance Fund (the PSTIF), a component unit of the State of Missouri, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These basic financial statements are the responsibility of the PSTIF's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Petroleum Storage Tank Insurance Fund as of June 30, 2003 and 2002, and the respective changes in its financial position and cash flows, thereof, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The PSTIF has not presented the required supplementary information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

Kansas City, Missouri
October 10, 2003



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PETROLEUM STORAGE TANK INSURANCE FUND
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PETROLEUM STORAGE TANK INSURANCE FUND
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Statements of Net Assets

June 30, 2003 and 2002

Assets	2003	2002
Current assets:		
Cash and cash equivalents	\$ 42,382,355	37,243,084
Accounts receivable	3,082,197	2,542,909
Interest receivable	142,050	187,416
Total current assets	<u>45,606,602</u>	<u>39,973,409</u>
Noncurrent assets—		
Other assets	<u>86,299</u>	<u>73,103</u>
Total assets	<u>45,692,901</u>	<u>40,046,512</u>
Liabilities		
Current liabilities:		
Accounts payable	16,429	330,954
Accrued personnel expenses	130,584	134,251
Deferred revenue	566,696	568,971
Claims payable	22,000,000	15,000,000
Total current liabilities	<u>22,713,709</u>	<u>16,034,176</u>
Noncurrent liabilities—		
Claims payable	<u>97,990,134</u>	<u>75,477,057</u>
Total liabilities	<u>120,703,843</u>	<u>91,511,233</u>
Net Assets		
Unrestricted net assets (accumulated deficit)	<u>\$ (75,010,942)</u>	<u>(51,464,721)</u>

See accompanying notes to the financial statements.

PETROLEUM STORAGE TANK INSURANCE FUND
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Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Transport load fee	\$ 23,423,369	16,998,592
Tank fee	40,400	67,775
Participation fee	1,203,742	1,203,516
Miscellaneous	18,419	4,494
Total operating revenues	<u>24,685,930</u>	<u>18,274,377</u>
Operating expenses:		
Personnel	1,838,861	1,544,599
Professional fees	2,364,620	2,601,490
Claims	44,591,438	20,997,696
Miscellaneous	369,666	982,380
Total operating expenses	<u>49,164,585</u>	<u>26,126,165</u>
Operating loss	<u>(24,478,655)</u>	<u>(7,851,788)</u>
Nonoperating revenue:		
Interest on cash and investments	<u>932,434</u>	<u>1,421,648</u>
Change in net assets	(23,546,221)	(6,430,140)
Total net assets (accumulated deficit)—beginning of year	<u>(51,464,721)</u>	<u>(45,034,581)</u>
Total net assets (accumulated deficit)—ending of year	<u>\$ (75,010,942)</u>	<u>(51,464,721)</u>

See accompanying notes to the financial statements.

PETROLEUM STORAGE TANK INSURANCE FUND
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Statements of Cash Flows

Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 24,131,171	18,221,573
Payment to employees	(1,842,528)	(1,537,036)
Payment to vendors	(3,048,811)	(3,259,987)
Claims payments	(15,078,361)	(16,535,334)
Net cash provided by (used in) operating activities	<u>4,161,471</u>	<u>(3,110,784)</u>
Cash flows from investing activities:		
Interest on cash and investments	<u>977,800</u>	<u>1,459,919</u>
Net cash provided by investing activities	<u>977,800</u>	<u>1,459,919</u>
Net increase (decrease) in cash and cash equivalents	5,139,271	(1,650,865)
Cash and cash equivalents—beginning of year	<u>37,243,084</u>	<u>38,893,949</u>
Cash and cash equivalents—end of year	<u>\$ 42,382,355</u>	<u>37,243,084</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (24,478,655)	(7,851,788)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Increase in accounts receivable	(539,288)	(24,823)
Increase in other assets	(13,196)	(50,677)
Increase (decrease) in accounts payable	(314,525)	323,883
Increase (decrease) in accrued personnel expenses	(3,667)	7,563
Increase (decrease) in deferred revenue	(2,275)	22,696
Increase in claims payable	29,513,077	4,462,362
Total adjustments	<u>28,640,126</u>	<u>4,741,004</u>
Net cash provided by (used in) operating activities	<u>\$ 4,161,471</u>	<u>(3,110,784)</u>

See accompanying notes to the financial statements.

PETROLEUM STORAGE TANK INSURANCE FUND
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Notes to Financial Statements

June 30, 2003 and 2002

(1) Financial Reporting Entity and Summary of Significant Accounting Policies

(a) Financial Reporting Entity

The Petroleum Storage Tank Insurance Fund (the PSTIF), created by Section 319.129 RsMO in 1989, is an independent, self-supporting, quasi-governmental entity governed by an 11-member board of trustees. State law indicates that the PSTIF will expire on December 31, 2010 with the exception of completing payment of claims made prior to that date. The purpose of this fund is to provide insurance coverage for storage tank owners for the expenses of cleaning up a leak, as well as third-party property damage or bodily injury resulting from leaks. The law requires the owner/operator to comply with certain Department of Natural Resources' (DNR) operating requirements in order to be insured. In addition, the fund pays for the expenses to clean up the sites where petroleum storage tanks have been closed if they meet certain criteria.

The PSTIF is a blended component unit of the State of Missouri (the State) as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. Based on GASB 14, the accompanying financial statements include only those operations related to the PSTIF and are not intended to present fairly the financial position and results of operations of the State.

(b) Basis of Presentation

The PSTIF accounts for its activities as an enterprise fund, a type of proprietary fund. Proprietary funds are used to account for ongoing activities that are similar to activities found in the private sector. The measurement focus is upon determination of net income.

Specifically, enterprise funds account for operations that provide a service to citizens that are financed primarily by a user charge for the provision of that service. Enterprise funds also account for activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(c) Method of Accounting

The accrual basis of accounting is utilized for the PSTIF. With this measurement focus, revenues are recognized when earned and expenses are recorded when incurred.

The PSTIF recognizes revenue on transport load fees based on when the fee was incurred by the transporter. Participation fees are earned based on the period in which the owner/operator is being insured.

The PSTIF recognizes claims reserve liabilities and the related expenses when the PSTIF becomes aware of contamination at a storage tank site and estimates the costs to clean up the contamination.

The PSTIF applies all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 and all Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB), except for those that conflict with or contradict GASB pronouncements.

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(d) Employee Fringe Benefits

State employees, including those employed by or paid from the PSTIF, are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the State's healthcare, option life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll deductions. Also, the deferred compensation plan involves employee deferrals and a monthly State matching contribution for each participating employee.

The State's required contributions for employee fringe benefits are paid from the same funds as the related payroll. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and Medicare taxes; healthcare premiums; and the deferred compensation plan match.

(e) Compensated Absences

State employees, including those employed by or paid by the PSTIF, are granted vacation, sick, and compensatory leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation and compensatory hours. Employees are not paid for accumulated sick leave upon termination. The amounts of accrued vacation and compensatory hours are included in accrued liabilities as a current liability in the accompanying statements of net assets. The costs of sick leave are recorded when paid and are not accrued.

(f) Fees

The PSTIF receives the following fee revenues:

Transport load fee—Fee upon each load of petroleum brought into the State. This fee is currently \$40 per 8,000 gallons of petroleum.

Tank fee—One-time fee of \$100 paid by the tank owners and operators for participation in the PSTIF.

Participation fee—A fee paid by the tank owners and operators who apply for and receive insurance coverage from the PSTIF. The fee is assessed on each tank insured annually. This fee currently ranges from \$100 to \$200 per tank insured.

(g) Cash and Cash Equivalents

Cash and cash equivalents for the statements of cash flows include cash and short-term investments, which are invested by the State as part of the State's cash pool. Information concerning the State's investment policy and carrying amounts by type of investment or deposits categorized by custodial risk may be found in the State's 2003 Comprehensive Annual Financial Report.

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(h) Classification of Operating and Nonoperating Revenue

The PSTIF has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues—Operating revenues include activities that have the characteristics of exchange transactions, such as charges for program participation. Also included in operating revenues are transport load fees, which the State has identified as the primary source of program funding.

Nonoperating revenues—Nonoperating revenue includes interest on deposits and investments.

(i) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(j) Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 financial statement presentation.

(2) Claims Payable

The PSTIF has claims payable for the cost of contamination clean-up for policy holders and other eligible site owners who have submitted notice of a contamination. The PSTIF's reconciliation of its beginning and ending claims liabilities is summarized as follows:

	<u>2003</u>
Payable as of beginning of year	\$ 90,477,057
Claims payments	15,078,361
Claims incurred	<u>44,591,438</u>
Payable as of end of year	\$ <u><u>119,990,134</u></u>

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(3) Subsequent Event

On July 23, 2003, the Board released seven remedial claims, which increased the claims payable by approximately \$430,000. These remedial claims had been filed since May 1, 2003. Remedial claims are those claims filed by tank owners and operators who do not have a contract for insurance with the PSTIF, but for which the PSTIF may extend coverage.